



Electronic Banking in Nigeria: Challenges and Prospects

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ARTICLE INFO

Article history:

Received: 10 April 2013;

Received in revised form:

20 March 2014;

Accepted: 2 April 2014;

Keywords

ATM card,
Electronic money,
Mobile banking,
Point of Sales (POS) machine.

ABSTRACT

Electronic banking (e-banking) system has become an important practice among commercial banks in Nigeria. The introduction of this banking system has improved banking efficiency in rendering services to customers and the public. However the gains of e-banking has been associated with some hinderances ranging from internet failure to arbitrary withdrawal of money by customers which negates the cashless policy being heralded by the Central Bank of Nigeria (CBN). It was in line with this that the study aims at examining the challenges facing this banking system and the prospects accruable to its adoption. Among the various suggestions made in this study- to benefit maximally from e-banking- include provision of enabling environment that can guarantee safety of lives and cash deposits of customers, provision of an interrupted power supply and internet service in order to enjoy efficient services from the banks. Lastly, enforceable e-banking regulations should be put in place to back up the cashless policy already initiated by the CBN. This will go a long way to reduce money laundering and reckless withdrawal of cash and thereby boosting capital formation and investment in the economy.

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Introduction

The application of information and communication technology concepts, techniques, policies and implementation strategies to banking services has become a subject of fundamental importance and concerns to all banks and indeed a prerequisite for local and global competitive banking. The advancement itech important role in improving service delivery standards in the banking industry. In its simplest form, Automated Teller Machines (ATMs) and Deposit machines now allow consumers to carry out banking transactions beyond banking hours.

With electronic banking (e- banking) or on-line banking which is a common method adopted by banks globally, individuals (customers) can check their account balances and make payments without having to go to the banking hall. This is gradually creating a cashless society where consumers no longer have to pay for all their purchases with hard cash. For example, bank customers can pay for airline tickets and subscribe to initial public offerings by transferring the money directly from their accounts, or pay for various goods and services by electronic transfers of credit to the sellers accounts.

As most people now own mobile phones, banks have also introduced mobile banking to cater for customers who are always on the move (Anyanwaokoro, 2001). Mobile banking allows individuals to check their account balances and make fund transfers using their account balances using their mobile phones.

The delivery channels today in Nigeria Electronic Banking are quite numerous. These include Automated Teller Machine(ATM), Point of Sales (POS), Telephone Banking, Smart Cards, Mobile Banking, Electronic Web Collection, Western Union Money Transfer (WUMT) etc.

However, with the changes in business operations as a result of the internet era, there is a great concern about information security. The promise of e-banking is offset by the

security challenges associated with the disintermediation of data access in Nigeria. One security challenge results from “cutting out the middleman” that too often cuts out the information security the middleman provides. Another is the expectation of the user accessing data from the internet. Application service providers (ASP) and exchanges offer especially, stringent and sometimes contradictory requirements of per user and per customer security, while allowing secure data sharing among communities of interest.

Therefore, it is the thrust of this paper to review the challenges being faced so far in respect of e-banking and the prospects inherent in its adoption.

Literature Review

The Concept of E- Banking

E-Banking is about using the infrastructure of the digital age to create opportunities both local global in nature (James, 2009). E-banking enables the dramatic covering of transaction cost and the creation of new types of banking opportunities that address the barriers of time and distance. Bank opportunities are local, global and immediate in E- banking.

The concept has long been recognized to play an important role in economic development on the basis of its ability to create liquidity in the economy through immediate financial intermediation between savers and borrowers. It also offers financial services and products that accelerate settlement of transactions and in the process reduce cash intensity in the financial system, encourage banking culture, and serves as catalyst of economic growth.

However, for the financial system to function effectively under e-banking, the payment systems must be safe and efficient, otherwise they can be channeled for the transmission of disturbances from one part of the economy or financial system to another. This is why the Central Bank of Nigeria(CBN) has been active in promoting sound and efficient payment system and in seeking the means to reduce risks

associated with the system. Nigeria, historically operated a cash-driven economy particularly in the consumer sector and the system has witnessed improvements over the years. It has in recent time moved from its rudimentary level of the early years of banking business to the current state of sophistication comparable to other economies at the level of development (Edet, 2008).

One important reason for financial liberalization and deregulation is the need to develop a good payment which promotes an appropriate mechanism for efficiency in mobilizing and allocating financial resources in the economy.

According to Mundu (2010), the payment system occupies an important place in the development of a country's economy. In fact, the level of development of a country's payment system is a reflection of the state or condition of the country's economy.

E- banking and Nigerian monetary policy

According to the report of Central Bank of Nigeria (2003) on the survey of developments in the e-payment and service products of banks and other financial institutions in Nigeria, e-payment system is defined as a system which consists of networks which link members, the switches for routing messages and rules and procedures for the use of its infrastructure.

Electronic currency substitutes are seen as part of a general process of technological advance and globalization that are rendering national authorities of all kinds impotent and obsolete. This is so due to the fact that computers make it at least possible to by-pass the payment system altogether, instead of using bilateral clearing and settlement (Oleka 2009).

Cohen et al (2001), thereby distinguishes between monetary control and monetary autonomy, where monetary control is the ability of the central bank to control monetary aggregate demand and supply of money while monetary autonomy is the ability of the Central bank to influence output and prices. They therefore argued that the introduction of electronic currency substitutes will not reduce monetary control, but may reduce monetary autonomy.

Hodagho (1996) also averred that the state can always use its power to regulate electronic money providers if they prove to be detrimental to monetary policy or financial stability. Based on this, there was a proposition that there should be monetary authority established in cyber space that will control electronic currency substitutes.

Electronic Business and Nigerian Economy

Electronic business (E- business) is not just about routine information management or automation alone, but also about using unique tools to create opportunities, create new markets, new processes and growth or increase the creation of e-wealth through the use of e-banking. The e-banking must monitor the environmental (local and global) with the aim of understanding and mastering its environment. E-banking thus involves collaboration(local and international)on payment systems, cashless transactions, digital cash and other electronic based projects.

It can be seen that other immense potentials can only be realized if bank management and staff, not just the system staff are sufficiently literate and aware of the new trends, and presently the banking industry still has a lot to do in terms of training their staff. The speed of change together with the speed for proper orientation for e-world makes training even more of a necessity.

For E-banking, which is a vital tool for e-business, to be effective, the area of security must be addressed. Therefore, security in online banking is typically provided through the use

of ID and password. These and other security measures must be effective to prevent, not only the breach of privacy but also other security concerns like the alteration of data.

Advantages Of Electronic Banking To Nigeria Economy

Fast settlement of transactions-Electronic banking speeds up settlement of transactions either at nations or international level where the bank stands as the paying bank to the customers for settlement of transactions or debt and collection bank for payment on transactions made.

Reduction in the rate of visits to banks- The introduction of E- banking has bridged the gap between customer and his bank, where the customer can easily go to any bank close to him and withdraw money from ATMs(Automated Teller Machines) through the help of the interbank- switch and also saves time and energy and reduces stress of the customer. It is also possible for customers to make or carry out transaction while at home with the use of telephone.

Enhancement of Cashless Society-The introduction of the electronic machine has reduced the use of voluminous raw cash thereby moving the country into a cashless economy. James (2009) noted that the settlement of financial obligations are now done by the use of electronic gadgets such as computer, telex etc, instead of currency notes and coins. He went on to say that individual can pay their bills by using credit cards or even pressing some buttons that transfer money from one account to another.

Reduction of Theft – The use of electronic payment system has reduced the rate of theft in the society. As reported on Tuesday, April 21 in the daily champion, the federal government, due to the epidemic corruption in official transaction and incessant robbery attacks on bullion van and bank vaults, has announced immediate automation of governmental fiscal policy operations through a system known as electronic payment.

Easier way of clearing imported goods- Payment system through the e-payment in the custom operation helps in ensuring easy facilitation of clearance of goods by importers. Also, the money accruable to the government are always paid up electronically thereby making the gathering of revenue very easy and checking of any fraudulent moves possible.

Challenges Of E- Banking In Nigeria

Despite the benefits accruable to E-banking, it is very unfortunate that the implementation of the concept in Nigeria has not been very smooth and encouraging. The following problems still abound.

Failure of power supply and communication link- Constant electric failure leads to deficiencies in infrastructures such as ATMs, computers etc which slows down the rate of electronic transactions. Also failure of links from communication providers has also served as a clog in the wheel of e-banking progress in Nigeria.

Lack of computer back-up- As a result of lack of computer back up in some banks, there may be loss of information about some customers when the bank system is corrupt. This has also led to misappropriation of customers' account in previous years. However there has been an improvement in tackling this problem in the Nigeria banking industry of today.

Lack of adequate investment capital - Funds that can be used to buy new information technologies and for modernizing existing systems are generally in short supply due to embezzlement and misappropriation of funds by some bank owners. This has led to transfer of funds from the domestic economy to foreign economies of the world by big customers and expatriates.

Reduction in employment rate- Electronic banking in the country today has reduced the rate of employment whereby many workers are being replaced by machines. Unfortunately number of banks in the economy has been reducing instead of increasing to accommodate more workers.

High cost of transactions- The rate of commission or charges imposed on customers by banks has been very high thereby discouraging customers from using the electronic machine in transacting their businesses. Examples of such include charges on cheques, ATM cards and online transfer of funds from one bank branch to another. However the N100 on a withdrawal from ATM of another bank other than the bank whose ATM card is used has been scraped lately since December 2012. This is an improvement.

Insecurity in Bank places- This is a national disease and has assumed a very terrible dimension in the country. Most electronic machines today are not secured thereby making it porous for fraudulent personnel to carry out their fraudulent activities without been caught. In addition to this, the ravaging armed robbers in some cases dismantle the ATM and cart away the money in the machine. There are also cases of computer hackers stealing data or information by breaking codes. All these phenomena have made the use of e- banking discouraging. Low public acceptance- From above problems, many customers and people of the public do not have trust and confidence in the machine. There are even cases of lost money in customers' accounts and yet the banks cannot refund such money after knowing that it was not withdrawn by the owners. This is an outright dishonesty!

Excessive withdrawal is being encouraged- Un-operational days like Saturdays and Sundays when banks are not in operation are always accompanied with excessive withdrawals with the use of ATM cards by customers. Customers with little or no cash on hand often rush to a nearby ATM to withdraw money for excessive spending on ceremonies and other cultural and social activities. This would not have been without the use of e-banking.

Regulatory challenges- At the national level, the Nigeria government and the relevant regulatory agencies have strived to match the rapidly changing electronic banking environment with necessary regulations and frameworks (Soludo, 2005). Earlier efforts made to this effect include the enactment of the Failed Banks and Malpractices in Banks Decree No 18 of 1994, and the Money Laundering Act of 1995. However as noted above, poor enforcement procedure rendered these instruments very inactive in checkmating the menace of financial crimes. By the late 1990's, following drastic growth in internet and computer usage in the country, almost all the regulations guiding the banking industry, including the Banks and Other Financial Institutions Act of 1991, were lacking adequate provisions to accommodate merging trend. Not even a mention of e-banking or any manner for its application was mentioned in any of those prevailing regulatory documents. This situation has created a lot of gap between the levels of Central Bank of Nigeria (CBN) regulatory tools and the advances in Information Technology.

Prospects Of E-Banking Implementation In Nigeria

Today's business environment is extremely dynamic and has experienced rapid changes as a result of technological improvement, increased awareness and demands from banks to serve their customers electronically. Amidst all odds, Nigeria banks have traditionally been in the forefront of harnessing technology to improve their products and services. Therefore, if the global technological advancement which has transformed

into E-banking is well harnessed there is bound to be prospects in the following areas.

Economies of scale - The use of ATM cards for example has improved customers patronage of banks. Many people in areas where some banks are not accessible but have paying points in form of other bank branches installed with ATM can still transact business with ease. This has increased the number of services rendered by banks. This has saved the banks the cost of printing unnecessary documents like the old passbook which are normally held by customers.

Another area where e-banking can help the economy if well handled is the area of time and stress saving. Customers may not need to go inside the banking hall before transactions are carried out. Also customers need not travel long distances before cash are withdrawn. This would also save the customers from the psychological effect of gun shots from armed robbers in time of robbers invasion of bank places.

The adoption of e-banking can in large extent reduce point of sales contact between buyers and sellers as operated in developed economies. This will be in form of electronic cards like credit card and debit card. The power of cards however, lies on their sophistication and acceptability to store and manipulate data, and handles multiple applications on such cards securely.

Telephone banking can also be improved upon to link the monetary authority and the customers as well. Services rendered through telephone banking include account balance, funds transfer, change of pin, recharge phones and bills payment.

Conclusion

From the foregoing, there seems that Nigerian banking industry is breaking new grounds in terms of e-banking. However, obstacles abound in the industry culminating in the inability of the industry to perform maximally as desired in line with the global practices.

The issue of power and network failure, for instance, has really served as great disappointment to customers at the point of their needs. The facilities needed in this area needs to be upgraded in order to bring back customers confidence in the e-banking as far as Nigeria is concerned. In addition to this is the armed robbery saga which is a function of the market risk or systemic risk confronting the entire society. The government should try to put in place an environment that is safe not only for business transactions but to install necessary facilities that can track down the bank robbers in order to sanitize the banking industry. There have been cases of bank workers divulging information of cash transfer to robbers. Culprits should be made to face necessary sanctions or penalties ranging from forfeiture of assets to death to serve as deterrent to other bank workers.

Lastly, the cashless policy might not see the light of the day if necessary laws are not passed that can regulate the activities of Nigerian politicians who are fond of carrying large amount of money around for politicking and sometime involve in draining our economy through money laundering. Cashless policy should therefore be for both the poor and the rich.

It is therefore hoped that if all the suggestions are reckoned with, Nigeria banking industry will be in forefront among the banking industries of the devolved economies in the nearest future.

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